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## SECURING AMERICA’S FUTURE

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## PROTECTING THE HOMELAND

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### SUMMARY

In the aftermath of the terrorist attacks of 11 September, and the subsequent threat of biological agents (such as anthrax) being used as weapons, the President has made homeland defense and security the Government's highest domestic priority, proposing \$38 billion for homeland security endeavors in fiscal year 2003.

### KEY COMPONENTS

- **Grants to First Responders:** The President proposes to create a new Federal grant program for States and localities to improve the ability of first responders to save lives when terrorists strike. The budget provides \$3.5 billion in 2003 for these grants, which will be administered by the Federal Emergency Management Administration [FEMA]. The grants will allow local fire departments, police departments and emergency rescue teams to hire needed employees, train staff, enhance preparedness, and purchase needed equipment to improve their ability to rescue victims of terrorism in the critical early hours after an attack when it is more likely that lives can be saved.
- **Defending Against Biological Terrorism:** Total spending for the Department of Health and Human Services' bioterrorism efforts would rise from \$2.8 billion in fiscal year 2002 to \$4.3 billion in fiscal year 2003. Funds would be used to counter the threat of bioterrorism through enhancements in hospitals and other public health facilities, research and development, pharmaceutical stockpile, and a national information network for better detection of biological attacks as well as natural disease outbreaks.
- **Securing the Nation's Borders:** The budget requests an increase in funding for the Immigration and Naturalization Service [INS] of \$852 million, or 15 percent (not including the emergency supplemental), which will support the hiring of 570 Border Patrol agents and 1,160 inspection agents. It also includes \$380 million for a new visa system that will better track the entry and exit of immigrants. The proposed fiscal year 2003 budget for the Customs Service is \$3.2 billion, an increase of \$400 million, or 14.4 percent. Of that total, \$744 million will be devoted to Northern Border Security – an increase of \$212 million, or 39.8 percent – and \$684 million to Maritime Security – an increase of \$329 million, or 92.7 percent.

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- **Securing U.S. Maritime Borders:** The budget increases funding for the Coast Guard by \$1.6 billion, or 28.2 percent. After 11 September, the Coast Guard's port security mission grew from approximately 1 percent to 2 percent of daily operations to between 50 percent to 60 percent today. In addition, the Coast Guard has important national security missions such as illegal immigrant and drug interdiction and port security.
  - **Aviation Security:** The Transportation Security Administration [TSA] was created pursuant to the Aviation and Transportation Security Act (Public Law 107-71) to improve aviation security by accelerating deployment of explosive detection systems and other airport security equipment, facilitating airport passenger and baggage inspection, and hiring and deploying more Federal Air Marshals. In order to implement this legislation, the administration proposes hiring 41,300 new full-time equivalents [FTEs] – including more than 30,000 screeners, an executive team, law enforcement officers, Federal air marshals, and support personnel – for the TSA. The budget requests \$4.8 billion in budget resources: \$2.454 billion in new budget authority and \$2.2 billion in offsetting collections raised through a combination of new passenger and air carrier fees.
  - **USA Freedom Corps/Service Initiatives:** These proposals include an expansion of existing programs – AmeriCorps (\$230 million), SeniorCorps (\$50 million) and the Peace Corps – as well as the creation of a new program called Citizen Corps (\$230 million), which will focus specifically on homeland security. All the above programs will be grouped under a new USA Freedom Corps Council run out of the White House.

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## WINNING THE WAR ON TERRORISM ABROAD

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### SUMMARY

The Department of Defense [DOD] budget request of \$369.3 billion – a 12-percent increase over the previous year's level – would be the largest DOD budget increase in 20 years, and is intended to provide the resources needed to prosecute the war on terrorism. In addition, the request contains a \$10-billion war reserve fund that can be tapped as needed to prosecute the global war on terrorism. This is a major departure from previous practice: military contingency operations have traditionally been paid for after the fact by means of supplemental budget requests.

Secretary Rumsfeld has argued that the need for transforming DOD to fight the war on terrorism, and the successes this transformation can bring are underscored by the war in Afghanistan. He has cited the first major confrontation of the war in Mazar-e Sharif: "The battle for Mazar was a transformational battle. It had U.S. Special Forces troops on horseback communicating with antique, 40-year-old B-52s" to direct modern, laser-guided bombs to their targets.

### KEY COMPONENTS

- **Forward Deployment:** The DOD budget supports 250,000 forward-deployed (in theaters of operation) troops in the war on terrorism.
- **Intelligence Enhancements:** The budget increases funding for programs found effective in the war on terrorism in Afghanistan, including at least \$3 billion to improve intelligence gathering and computer networking.
- **Unmanned Aerial Vehicles [UAVs]:** A total of \$158 million will be used to buy missile-firing Predator drones like those used for the first time against the Taliban. A sum of \$629 million will speed production of Global Hawk, the long-range UAV that also debuted in Afghanistan.
- **Precision Munitions:** The 2003 budget requests \$1.6 billion to buy 45,00 laser-guided bomb kits and 33,000 new satellite-guided bomb kits.
- **Space-Based Radar:** The President has given top priority to developing a constellation of satellites that would track moving vehicles on the ground as well as aircraft.

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- **Nonproliferation:** The budget expands efforts to reduce the threat of proliferation of weapons of mass destruction by \$1.5 billion.
  - **Military Assistance:** The budget increases and targets military assistance to sustain key countries supporting the United States in the war on terrorism by increasing Foreign Military Financing [FMF] by \$457 million or 12.5 percent. It also increases funding for International Military Education and Training [IMET] by \$10 million, or 14.3 percent.
  - **Stopping Terrorist Financing:** The Treasury Department's Financial Crimes Enforcement Network [FinCEN] and Office of Foreign Assets Control [OFAC] have acted since September 11, 2001, to freeze \$34 million in terrorist assets (Taliban, Hamas, and al Qaeda) and assisted America's allies in freezing \$33.9 million. The fiscal year 2003 budget provides FinCen with \$52 million and OFAC with \$22 million.
  - **Global Broadcasting:** The budget also strengthens global broadcasting and public diplomacy to communicate American ideals and beliefs to vital audiences in countries in conflict and transition, especially in the Middle East, by increasing funding for International Broadcasting Operations by \$40 million, or 9.1 percent.
  - **Peace Corps:** The budget increases funding for the Peace Corps by \$42 million, or 15.1 percent.

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## RETURNING TO ECONOMIC VITALITY

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### SUMMARY

The President urges quick passage of an economic package modeled along the lines of the bipartisan compromise that passed the House in December and that was supported by a bipartisan majority in the Senate. The President has included this “Bipartisan Economic Security Plan” in his budget for fiscal year 2003. Specifically, the Budget includes a multi-year total of \$36.5 billion in mandatory spending and \$105.5 billion in revenue reductions to both create new jobs and assist dislocated workers. In the current fiscal year, which ends in 8 months, \$27 billion in new spending and \$62 billion in tax relief are proposed for economic revitalization.

The Council of Economic Advisors has estimated that the President’s economic security plan would boost 2002 gross domestic product [GDP] by one-half percentage points and lead to the creation of 300,000 new jobs. OMB has based its economic forecasts on the assumption that an economic package will be enacted.

### KEY COMPONENTS

The “Bipartisan Economic Security Plan” consists of the following:

- Accelerating the individual income tax rate reductions the Congress passed last year.
- Tax refunds to lower- and moderate-income individuals and families.
- Immediate assistance to laid-off workers by extending their unemployment benefits by 13 weeks.
- Increased resources for job training.
- Tax credits for unemployed workers to retain their health insurance coverage.
- Reforming prospectively the alternative minimum tax on businesses.
- Better tax treatment for employers and entrepreneurs who invest in new equipment.

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## **BUDGET IMPLICATIONS OF THE WAR**

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### **SUMMARY**

The onset of recession and the economic effects of the terrorist attacks have resulted in a rapid deterioration of the near-term fiscal outlook, according to the President's budget. Tax revenues have declined while spending has risen for defense, homeland security, and cyclical programs such as unemployment insurance.

Deficits appear likely at least over the next 2 years. But if the Government pursues pro-growth policies and maintains spending discipline, the budget should return to surplus by 2005, the administration budget says. Although reducing the tax burden may worsen the deficit in the short term, it will generate the growth that ultimately produces surpluses.

### **KEY FACTORS**

The President's budget identifies the following key factors related to the budget and economic situation.

- Economic weakness is the largest source of erosion in the fiscal year 2003 budget projection, accounting for two-thirds of the deterioration.
- Spending as a result of the 11 September attacks accounted for an additional 20 percent of the decline in the budget outlook.
- The combined effects of recession and war interrupted the process of paying down the national debt. Nevertheless, publicly held debt as a percentage of gross domestic product will continue to diminish over the long term: from 50 percent in the mid-1990s, to 33 percent in 2003, to 25 percent by 2007.
- Despite the favorable long-term picture for publicly held debt, total Government debt has been rising gradually over time; it is expected that the statutory debt limit will be reached sometime in early 2002. This is principally because of intergovernmental transfers, which are counted as part of the overall debt subject to a statutory limit.

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- As a result of inaccuracies in budget projections of a year ago, the administration proposes to phase out 10-year budget projections by 2004 in favor of 5-year projections.
  - The administration also intends to reform what it regards as the disorderly budget process by proposing “legally enforceable mechanisms” such as making the congressional budget resolution a law and extending statutory limits on spending.